

**Effect of protective rights on an assessment of control**

The Interpretations Committee received a request to clarify the guidance in IFRS 10. The query relates to protective rights and the effect of those rights on the power over the investee. More specifically, the submitter asked whether the assessment of control should be reassessed when facts and circumstances change in such a way that rights, previously determined to be protective, change (for example upon the breach of a covenant in a borrowing arrangement that causes the borrower to be in default) or whether, instead, such rights are never included in the reassessment of control upon a change in facts and circumstances.

The Interpretations Committee observed that paragraph 8 of IFRS 10 requires an investor to reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. The Interpretations Committee also observed that a breach of a covenant that results in rights becoming exercisable constitutes such a change. It noted that the Standard does not include an exemption for any rights from this need for reassessment. The Interpretations Committee also discussed the IASB's redeliberations of this topic during the development of IFRS 10 and concluded that the IASB's intention was that rights initially determined to be protective should be included in a reassessment of control whenever facts and circumstances indicate that there are changes to one or more of the three elements of control. Accordingly, the Interpretations Committee noted that the conclusion about which party controlled the investee would need to be reassessed after the breach occurred. It also noted that the reassessment may or may not result in a change to the outcome of the assessment of control, depending on the individual facts and circumstances. The Interpretations Committee also concluded that it did not expect significant diversity in practice to develop following the implementation of the Standard. Consequently, the Interpretations Committee decided not to add this issue to its agenda.